

***THE ROLE AND FUNCTION OF EUROPEAN REGIONAL  
HEADQUARTERS IN JAPANESE MNCs***

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# The Role and Function of European Regional Headquarters in Japanese MNCs

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## Abstract

*Multinational Corporations (MNCs) that establish Regional Headquarters (RHQ) expect the RHQs to become a management centre in the region. In this paper, the author focuses on three expected roles, that of a decision-maker, a coordinator, and as a transferor of knowledge on local operations and markets to the MNC. An interview survey examines the existence and roles of RHQs, defines minimal conditions for being defined as a RHQ, and determines seven such companies to be RHQs. All seven RHQs can be described as coordinators. Some RHQs coordinate their subsidiaries by controlling the flow of parts/products. Other RHQs assign their managers two titles or positions for coordinating subsidiaries. In other words, one manager has two functions: managing the region and a local company at the same time. From the point of the knowledge-based management, however, RHQs do not seem to work well. Though they are expected to transfer local knowledge to headquarters and other subsidiaries in MNCs, they often fail to systematically do so. To sum up, the author claims that the function and role of RHQs as knowledge based management centres needs to be bolstered.*

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## **Introduction**

Since around 1990, Japanese Multinational Corporations (MNCs) have been establishing Regional Headquarters (RHQ) in North America, Europe and South Asia. Japanese MNCs expect such RHQs to carry out different roles, such as making decisions near the market, coordinating businesses in the region, developing new business, and so on. In other words, RHQs are expected to perform a headquarters-like function within the region (Lehrer and Asakawa 1999).

Studies over the last ten years have discussed many expected roles for RHQs theoretically, but not practically. In these same ten years many Japanese MNCs have established RHQs in Europe. It seems that these RHQs have built up a position as European management centres at the same time that the unification of Europe has progressed. But while Japanese MNCs have ten years of experience in European regional management, in the field of international business it seems that the roles of RHQs have yet to be discussed deeply and remain ill-defined, especially from the viewpoint of knowledge-based management.

What is a RHQ? What are the roles of RHQs? How can knowledge-based management through RHQs be described? In this paper, European RHQs of Japanese MNCs are examined, and their roles are discussed from the viewpoint of knowledge-based management. The purpose of this paper is to consider the roles of RHQs, and to stress the need for RHQs to develop their knowledge-based management capabilities.

In the first section of this paper, existing studies of RHQs are surveyed. In the second section, some questions are raised on the roles of RHQs and regional management. In the next section, some findings are detailed and explained that arise from an interview survey of eight RHQs of Japanese MNCs. In the final section, the roles of RHQs of Japanese MNCs are discussed and considered on the basis of knowledge-based management.

## **Background**

Many studies about RHQs and regional management exist, discussed from different viewpoints. It seems, however, that there are three subdivisions.

The first type studies the needs for RHQs. Early studies focus on the failures of European RHQs of American MNCs in the 1960s (i.e. Williams 1967, Parks 1969, Dymsza 1972, Business International 1989). These studies discussed the function of European RHQs as well as why some RHQs would be expected to close down.

Further, while the RHQs of some firms were closed down, other American MNCs have maintained RHQs in Europe and Asia to the present. It can thus be said that a need remains for RHQs. Morrison and Roth (1992, p.37) said, "a global strategy may be inappropriate for United States companies with extensive international subsidiaries. Rather, a regional approach to business represents a more effective solution to the dual challenges of efficiency and organizational responsiveness." They point out the need for RHQs as 'a regional solution.' But there remain few and insufficient studies of why American MNCs have RHQs.

The second type of study is about organizational evolution of MNCs (e.g. Bartlett and Ghoshal 1989, Mitsubishi Research Institute 1992, Lasserre 1996, Takahashi 1998, Fujino 1999). These describe RHQs as a 'transit stop' (De Koning,

Verdin and Williamson 1997), and are influenced by studies such as Perlmutter (1969) and Stopford & Wells (1972), where regional structure is considered a temporary formation. When MNCs evolve a global structure, the RHQs seem to be closed down.

However, from the point of 'a heterarchy' (Hedlund 1986), the RHQs seem to carry out an important role as a center of excellence in the global structure. Mori (1993) and De Koning, Subramanian, and Verdin (1999) described the role of the RHQs as a node of knowledge-based management, instead of a 'transit stop.' Furthermore Yasumuro (1992) stressed the usefulness of a Multi-Polarized Matrix Structure by RHQs as a new organizational structure that emerged after the development of global matrix organizations. This is the third type of studies.

In this paper, the roles of the RHQ are examined and discussed from the view of such third type studies.

### **Questions concerning the expecting roles of RHQs**

What is a RHQ? What functions are RHQs supposed to perform? According to previous studies, RHQs are supposed to have mainly three roles. First, RHQs have been expected to carry out headquarters-like function. Second, RHQs have been expected to carry out a coordinating function. And third, RHQs have been expected to transfer knowledge from local operations and markets to headquarters and other subsidiaries in MNCs.

In this section, these expected roles of RHQs will be examined and some questions will be raised.

#### **The headquarters-like function**

What is a RHQ? It is clear that a RHQ is a kind of headquarters. This means that a RHQ is not a liaison office, a regional office, a sales headquarters, a financial subsidiary, or a holding company (Yasumuro 1992). Many studies, however, have discussed RHQs without clearly defining the differences between RHQs and other subsidiaries.

Such distinctions between a RHQ and other subsidiary forms needs clarification. As mentioned, a RHQ is a kind of headquarters. So what is a headquarters? Some studies pointed out that a headquarters is a core of organization and a place where strategic decision are made (Yasumuro 1992, Takahashi 1998). From this point of view, RHQs also can be a place where strategic decisions are made for the region. This point is very important in order to distinguish between RHQs and other corporate forms. Therefore it can be said that if RHQs carry out the headquarters-like function, RHQs must have the power for decision-making in the region.

However, even if RHQ is defined as an organization for decision-making, subsidiaries might not carry out or implement the decision without some substantial power of RHQs (Blackwell, Child, and Hensley 1992). What do RHQs require in order that subsidiaries implement RHQ decisions? According to Yasumuro (1992), it requires that the CEO of the RHQ is a member of the board at corporate headquarters in order to wield power over subsidiaries. In other words, if the CEO of the RHQs is not a member of the board at headquarters, the RHQ may not be able to force subsidiaries to carry out decisions (Mori 1998).

In addition to this, if RHQs carry out a headquarters-like function, the CEO of the RHQ usually needs to work within the RHQ. Otherwise, it could be impossible to

make proper decisions and to respond quickly.

If these requirements are fulfilled, the organization can be defined as a RHQ. Therefore judging from above, the following questions should be investigated.

Question 1: Which organization in your company has the most power to make and implement regional strategy?

Question 2: What kind of power do you think the RHQ needs in order to carry out its role as a headquarters?

Question 3: Does the CEO of your regional organization have a position of executive or above at main corporate headquarters?

Question 4: Where does the CEO usually work?

### **The role as a coordinator**

Many studies mentioned that RHQs should have the role of a coordinator. This has two dimensions: one is the coordination of business units within the region (e.g. Dunning and Norman 1983, Aoki and Tachiki 1992, Lasserre and Schütte 1999) and the other is a coordination between global integration and local responsiveness. (e.g. Yasumuro 1992, Morisson and Roth 1992, Lahrer and Asakawa 1999).

In general, RHQs tend to be established when MNCs must efficiently manage many subsidiaries in the region. In this situation, RHQs are expected to coordinate production activities in the region as well as sales and marketing activities. RHQs are also expected to provide some staff services to support subsidiaries, and to reduce total costs. Since most subsidiaries in each country are small-to-medium sized firms, it is not worth each subsidiary having all staff functions, such as information systems, personnel function, and legal services. Rather, if such functions are carried out within RHQs, there is improved efficiency and therefore reduced costs.

In addition to this, with the progressive unification of Europe and the emergence of region-wide distributors, RHQs must also react to regional-based management.

Therefore it seems important that RHQs coordinate and integrate business units within the region.

Separately, the coordination between global integration and local responsiveness is important. There may be differences in market sensitivity and intent between headquarters and RHQs. MNCs have to coordinate such conflicts. Lehrer & Asakawa (1999, p.272) mention that "where strong pressure exist for both regional responsiveness and for regional integration, the regional office can be expected to exercise an important administrative, headquarters-like function". Therefore RHQs are expected to be the coordinator between global integration and local responsiveness.

How do RHQs carry out this coordination function? In order to know this, some questions should be raised.

Question 5: How does your regional organization coordinate business units in the region? Or how does your regional organization solve conflicts between business units in the region?

Question 6: How does your regional organization coordinate between global integration and local responsiveness? Or how does your regional organization solve conflict between your headquarters/product divisions and RHQs?

### **The role of transferring knowledge from local operations and markets to headquarters and other subsidiaries in MNCs**

Theoretically, RHQs are expected to transfer knowledge from local operations and markets to headquarters and other subsidiaries in MNCs. In other words, RHQs are expected to develop new businesses, transfer knowledge, and to accumulate knowledge of regional operations and markets.

In fact, it is difficult for product divisions to manage new businesses over existing product divisions. Doz and Ghoshal (1994) mentioned that RHQs coordinate with a specific strategic thrust that cuts across businesses and countries. Kidd and Teramoto (1995, p.47) recognized "the potential for the RHQ to act as a catalyst for double loop learning, or indeed for deuterio learning (the learning to learn activity)." Lasserre (1996) pointed out the entrepreneurial enhancing roles, such as scouting, strategic stimulation, and signaling commitment. Takahashi (1991) also explained RHQs as a facilitator to develop new businesses in the region. In these studies, it seems that RHQs are expected to facilitate synergy between business units, and to develop new businesses which are not part of existing product divisions.

RHQs are also expected to transfer knowledge of local operations and markets to headquarters and other subsidiaries in MNCs. According to Ohmae (1985), Japan, the U.S. and Europe are a "womb" for the emergence of new knowledge, and MNCs need to be insiders in the area in order to identify and use the knowledge. To become an insider company, MNCs have to learn about extant knowledge and the way of thinking of the area (Ohmae 1985). In other words, an organization needs to be embedded in the market in order to learn and use the knowledge of the local market (Yasumuro 2000, Yasumuro and Nishii 2001) and the company has to dwell in the market and area (Imai ed. 1992). Mori (1993) pointed out that RHQs are a way of becoming an insider company. It means that RHQs have an appropriate position to get regional knowledge.

Furthermore, to get and accumulate appropriate knowledge, the location of RHQs is important. It means that the share of place is important to create knowledge (Nonaka and Takeuchi 1995). From these viewpoints, MNCs must become sensitive to the location of their RHQs.

In addition to this, since RHQs are in a position to coordinate global integration and local responsiveness, RHQs act as a kind of interface to create knowledge as well as a storage of knowledge. According to Birkinshaw (2000), the subsidiaries of MNCs sit at the interface of three markets: the local market, the internal market, and the global market. Although Birkinshaw focused on subsidiaries, it is clear that RHQs are similar. Therefore it can be said that RHQs play a role as an interface for different types of knowledge. De Koning, Subramanian and Verdin (1999, p.8) mentioned that "without the depth and breadth offered by the region that leads to innovation, it would have been difficult for an individual national subsidiary to gain the equal voice and contribute to the MNC's competitive advantage in the time span it took the European operations to achieve this outcome." It means that subsidiaries do not have enough power to deliver their local voice to their headquarters and local area government. If RHQs make such proposals instead of or in addition to their subsidiaries, it may be more beneficial. From this point of view, the 'centres of excellence' approach based on subsidiaries (Holm and Pederson 2000) would not be appropriate for Japanese MNCs. However if regional based management is considered, RHQs would be regarded as a very important position for knowledge transfer to MNCs.

If the RHQs need to learn to use the regional and local knowledge within MNCs, local employees need to work within RHQs. If only Japanese expatriates carry

out the function, because Japanese staff tend to be rotated more regularly, the knowledge might be biased. Therefore to put the appropriate knowledge into MNCs, RHQs must have a system to promote local employees from subsidiaries.

Furthermore, the synergy among RHQs also needs to be considered. De Koning, Subramanian and Verdin (1999) describe MNCs as the regional network MNC. According to them, since each subsidiary is too small to deliver their voice to headquarters, MNCs have to consider the regional management. In their model, HQ and RHQs seem to be almost equal partners, and this seems to encourage the interaction between a headquarters and RHQs. Mori (1993) discussed that if the RHQ structure is understood as a heterarchy, it is possible to understand RHQs as key position in knowledge-based management. Therefore, it can be said that MNCs need an opportunity to exchange knowledge between HQ and RHQs, and also between RHQs.

Judging from the above, some questions should be raised:

Question 7: Does your regional organization manage new business in the region, which is not covered by existing product divisions? If so, how?

Question 8: Why did your organization choose the present location for the RHQ?

Question 9: Is there any possibility for your local employees to get promoted to the RHQ and corporate home office headquarters?

Question 10: Does your regional organization have any system to exchange your regional voice and best practices with other RHQs?

### **Samples of regional organizations of Japanese MNCs**

An interview survey of European regional organizations of Japanese MNCs was conducted from June to November 2000<sup>1</sup>. These regional organizations are located in the UK, Germany, the Netherlands and Belgium.

The regional organizations were chosen in the following way. First, subsidiaries with a function of regional management according to the data book '1999 *Kaigai Kigyou Souran*' ('The list of foreign subsidiaries of Japanese MNCs in 1999', Toyo Keizai Shinpousha) were selected and were requested to participate in the survey. As a result, eleven firms (3 electronic companies, 3 car companies, 2 pharmaceutical companies, 1 other company and 2 general trading companies) were interviewed.

Each interview was conducted in the Japanese language and took about two hours. The persons responsible for regional management (mainly President of RHQ and/or Managing Director) were interviewed. The purpose of this interview survey was to identify the main operational functions of the European RHQs of Japanese MNCs through use of the previously mentioned ten questions.

This paper describes eight valuable samples of European RHQs. Of the original eleven companies, one could not be used because permission for quotation could not be secured. Two general trade companies were excluded because of this paper's focus on production companies. As a result, eight companies are used in the below analysis. Table 1 profiles these eight companies:

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<sup>1</sup> I would like to thank Professor Umeno (Kobe University of Commerce). He assisted me at the interview survey in the UK.

**Table 1. Regional Organizations of Japanese MNCs in Europe**

Company (location)	Year of establishment	Capital	Scope of management	Number of employees (Japanese)	Number of subsidiaries under control	Main function
<Electronics industry>						
Company A (U.K.)	1988	15.4 billion pounds	Europe, the Baltic states	84 (36)	Sales 15 Sales support 2 Finance 1	Corporate planning, public relations, management support, human resources, marketing information system, production support, legal activities environment, knowledge resources, R&D, training
Company B (Germany)	1986	2 million DM	Europe	About 200 (about 10%)	Sales 19 Production 11 R&D 8	All support functions for European operation
Company C (Belgium)	1989	34.4 million Euro	Europe, Russia, Turkey, North Africa	190 (35)	Sales 7, production 4	Headquarters function for production, sales, finance and others
<Car industry>						
Company D (U.K.)	1989	272 million pounds	Europe, the Middle East, Africa	About 400 (30)	Sales 21, production 7, sales and production 4, R&D 3, others 12	Coordination function and total strategic function in the region
Company E (the Netherlands)	1989	12.54 million DG	Europe except Far East Europe	591 (45)	Production 3, sales and others 35	Corporate planning, integration, planning control, strategic development, re-invoicing, etc.
Company F (Belgium)	1998	945 million euro	Factories in UK, France, and Poland	240 (45)	Production 3	Parts purchasing, production control, logistics, production technology, quality control, accounting, corporate planning, personnel, general affairs, etc.
<Pharmaceutical industry>						
Company G (Germany)	1991	4 million DM	Europe	180 (9)	Sales 5, some branches	Business development, corporate administration, R&D, sales & marketing, medical information
<Other>						
Company H (U.K.)	1990	1.5 million pounds	Europe, the Middle East, Africa	35 (18)	Affiliated companies 29, production 25, plants & offices 64	Integration of information systems, promotion of benchmark activities, integration and closing down of some business sites, all comprehensive negotiations, promotion of local communication

Source: Interview survey



## **Findings**

As a result of this interview survey, some interesting roles of RHQs could be observed. In this section, the results of the interview survey are explained.

### **The headquarters-like role**

Question 1: Which organization in your company has the most power to make and implement regional strategy?

Question 1 is the issue concerning the place of decision-making for regional strategy. According to the interview survey, three of eight Companies answered that the board of directors in RHQs have decision-making power for regional strategy (Company A, C, and F). Company A makes only decision for sales and marketing activities and Company F mainly for production activities. Four of eight companies discuss regional strategy within an Executive Committee (Company B, D, E, and G). And only one of eight companies has not made decisions for the region in the RHQ (Company H).

Question 2: What kind of power do you think the RHQ needs in order to carry out its role as a headquarters?

To carry out a headquarters-like function, what does the RHQ need? Some companies mentioned a need for power to carry out the headquarters-like function. For example, Company A emphasized a so-called approval power, such as personnel management powers, including designation of the subsidiary presidents, the review and approval power over subsidiary corporate plans and sales plans, and approval power in important management matters. Company C also mentioned the power of personnel management, as well as being a shareholder in subsidiaries and the power to make and implement strategic decisions. Company D claimed the power of personnel management and voting rights. Company F mentioned approval power over budgets, the power of personnel management in the region, and the power of allocation of resources in the region.

Question 3: Does the CEO of your regional organization have a position of executive or above at main corporate headquarters?

Question 3 is about the position of the RHQ's CEO in the corporate home office headquarters. The CEOs of six companies are an executive and above in their headquarters (Company A, B, C, D, F, and G). Company E has no CEO position in their regional organization, and just 4 senior vice presidents, so it is difficult to say if the CEO has a executive position in the headquarters. But the chairman of the executive meeting in the Company E is a vice president at the corporate headquarters, and roughly equivalent to a regional CEO. Only the CEO of Company H holds no position of executive and above at corporate headquarters.

Question 4: Where does the CEO usually work?

Question 4 is about the working place of the CEO. According to this interview survey, all of the CEOs work mostly at the regional organization, except in the case of Company E. Company E has no position of CEO and the chairman of the executive meeting of regional organization usually works at the corporate headquarters. Four senior vice presidents usually work for the regional organization and are posted in the region.

### **The role as a coordinator**

Question 5: How does your regional organization coordinate business units in the region? Or how does your regional organization solve conflicts between business units in the region?

Question 5 is about the coordination function of RHQs. According to this interview survey, different coordination functions in each company were observed.

Company A: In order to do business in Europe successfully, it is important to create good relationships between Company A, their sales subsidiaries and the production subsidiaries. Company A usually coordinates the relationships through some periodic meetings and their daily operations.

Company B: Company B built up a four-pronged interactive relationship as follows between itself, its European business units (EBU), manufacturing operations, and country sales operations. First is the business relationship between the EBU and the manufacturing operations. In other words, the manufacturing operations consider the EBU a customer. Next is the sales activity. While Company B deals with European-wide sales activities following the emergence of some Pan-European distributors, country sales operations deal with their local markets, which play an important role as an interface with customers. The third point is the reporting line. Both the production country operations and sales country operations have reporting lines with each European Network Company for each product. Finally Company B supports all operations in Europe as a whole.

In addition to this, Company B gives some managers two positions. For example, the Chief Production Officer in Europe can at the same time be a factory manager in Hungary. On one hand he usually works at the factory for the operation in Hungary; on the other hand, he is also responsible for European-wide operations.

Company C: Since introducing a proprietary Company system<sup>2</sup> in 1997, a matrix organization has been built up around Company C organized by product and by area. Although the aim of this reorganization is basically the reinforcement of business units, because of historical reasons the area divisions still have strong power. Therefore, Company C now has responsibility for regional management and coordinating business units in the region.

The top management in Europe is the board of Company C, composed of the president of Company C, the chiefs of each business unit, and the chiefs of three departments from headquarters in Japan: administration, corporate planning and

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<sup>2</sup> Virtual company within a firm with more autonomy.

production. They usually discuss business strategies in Europe.

Company D: The Executive Committee of Company D has the top management function in Europe. The committee members include the executives of sales, R&D, production and administration, as well as the European directors in charge of Public Affairs, Business Administration, Personnel, Systems, Motorcycles, Automobiles, Power Products and Parts. Some of these directors have a double position, e.g. the director of motorcycles is also the president of the production facility in Italy. Because of these double positions, they are able to discuss total regional management strategies in their management director's meetings.

Company E: From the year 2000, Company E has abolished the position of the president/CEO of the regional organization, and introduced a system relying on a quartet of four Senior Vice-Presidents (4SVP) as is the case with the North America. The four Senior Vice-Presidents are in charge of sales & marketing, production & purchasing, R&D and administration. The Vice-President in charge of overseas enterprises in the corporate headquarters is placed on top of the SVPs. The Regional Management Committee which discusses business operations in the region is composed of this Vice-President and the four SVPs.

Company F: Company F has departments of parts purchasing, production control, logistics, production technology, quality control, accounting, corporate planning, personnel, general affairs and so on. The function of parts purchasing is an especially important function. Instead of each factory purchasing parts by itself, Company F buys parts centrally to reduce costs. Company F thus seems to coordinate business units through the control of product/parts flow.

Company G: In case of the pharmaceutical business, the company is required to get approval from each government in Europe for selling its products. As a result, on the one hand the products have a global character, but on the other hand product sales have an extreme local character. Therefore, Company G manages mainly sales and marketing in Europe, and thus has considerable autonomy. Company G makes about 90% of regional management decisions based on company rules set up for subsidiaries.

There are some meetings for regional integration. For example, Information Meetings in Company G are held to explain company policies to their employees, and Kick-off Meetings are held to explain their corporate plan to the subsidiaries. Furthermore, each subsidiary has to give a presentation at Company G to discuss their business plan. The subsidiaries share a common direction as a total European group through these meetings.

Company H: The top management is made up of the Management Committee for the Regional Group in Company H, under chairmanship of the president of Company H. In this committee, they discuss many different management matters of the regional group. However this is not a place for decision-making, but only for information exchange about regional matters. Though the **major** role of Company H as a **RHQ was** to integrate their business in the region and reduce **operational** costs, now the role is not as clear as before. After the initial purpose of setting-up throughout Europe was achieved, Company H has become just an organization to maintain activities already implemented.

Question 6: How does your regional organization coordinate between global integration and regional responsiveness? Or how does your regional

organization solve conflict between your headquarters/product division and RHQ?

Question 6 is also about the coordination function of RHQs. But it concerns the coordination between global integration and regional responsiveness. According to this interview survey, varied coordination functions in each RHQ were found.

Company A: According to Company A, there are conflicts between product divisions and sales units in deciding the contents, the date of the sales, and the price of new products. As Company A is divided into product divisions and area management divisions, the coordination between these divisions is made through periodic joint meetings and in daily operations. Coordination between regional organizations is the responsibility of the director in charge of foreign direct investment at corporate home office headquarters.

In addition to this, Company A has a unique role. Company A gets information concerning regional markets across to headquarters and the product divisions, which encourages the headquarters and product divisions to develop new products. Company A makes guidelines for sales and marketing for the whole of Europe. Subsidiaries are managed under the regional strategy and within these guidelines. Also, as Company A comprehensively controls the sales support function, the subsidiaries' total costs are reduced.

Company B: To maintain a unified organization, Company B built up a reporting line to itself from all subsidiaries in Europe. In addition, in order to discuss the global strategy, the Chairman / CEO of Company B is the Group Company Officer at the corporate home office headquarters.

Company C: The corporate headquarters coordinates conflicts between the area divisions and business units. The meeting for solving these problems is composed of the president of the corporate headquarters, the chief of each business unit, and the president of each regional organization.

Company D: The executives of Company D participate in a strategic management meeting at the corporate headquarters, where conflicts between global strategies and regional strategies are coordinated.

Company E: When matters cannot be coordinated among the four Senior Vice-Presidents in the region, the Vice-President of the corporate headquarters who is Chairman of the Regional Management Committee tries to coordinate matters at the corporate home office headquarters level. On the one hand, the SVPs have regional responsibilities concerning sales & marketing, production & purchasing, R&D, and administration; on the other hand, the corporate functional department in the corporate headquarters has global responsibilities where they must look at the business from a global viewpoint. Therefore, there is a matrix relationship by area and function at the level of SVP in Company E. In this structure, HQ expects effective performance by putting some stress between functions.

Company F: The CEO of Company F is a member of the board of directors at the corporate headquarters in Japan. He usually attends board meetings at the corporate headquarters where coordination between Japan and the regions is carried out. In the case of the car industry, because of the big scale of investment, business always needs to be discussed with the corporate headquarters. However some functions, such as parts

purchasing, are carried out by Company F itself.

Company G: The CEO of Company G is also a corporate officer of the corporate headquarters, but he does not belong to the Managing Director's Committee at the corporate headquarters. The CEO of Company G reports directly to the president of the corporate headquarters, but on a practical level he usually exchanges a lot of information with the Corporate Planning Section of the International Division. Through this division, the European voice is delivered to related sections in the corporate headquarters. To make a global business plan, each year the top of three major subsidiary in USA and Europe gives a presentation at the corporate headquarters to influence global strategy.

Company H: Actually, the three business units under Company H report directly to the product divisions at the corporate headquarters; reporting from the business units to Company H is secondary. From the viewpoint of capital, Company H has the same rank as all subsidiaries. Therefore Company H does not have enough power to coordinate between global integration and regional responsiveness. Rather the coordination function takes place within the production divisions.

### **The role of transferring knowledge from local operations and markets to headquarters and other subsidiaries in MNCs**

Question 7: Does your regional organization manage new business in the region, which is not covered by existing product divisions? If so, how?

Question 7 is about developing new business in the region. In this interview survey, there are no findings concerning this matter. Although the different functions were shown in Table 1, it is difficult to find the function of developing new business. Only Company A related something about this. They mentioned that Company A transfers some information from the regional viewpoint concerning advanced technology, competitor activity and so on to both headquarters and product divisions; this then encourages the product divisions to develop new products.

Question 8: Why did your organization choose the present location for the RHQ?

Question 8 is about the location of the RHQs. According to this interview survey, most companies have no substantive strategic reasons for RHQ location siting. They often mentioned that the location originally was the site of a sales subsidiary, or a logistics subsidiary. It seems that they simply depend on previous experience. Only one company (Company B) mentioned that they decided to locate the RHQs on the basis of prospects for the future.

Question 9: Is there any possibility for your local employees to get promoted to the RHQ and corporate home office headquarters?

Question 9 is about promotion of local employees to RHQ or the corporate headquarters. Seven of eight studied companies detailed the possibilities for promotion of local employees. In only two companies have local employees gotten promoted to RHQ and the corporate headquarters (Company B and E). Another two companies have

transferred local employees only within the region (Company A and C). Three companies just mentioned the existence of possibilities (Company D, E, and G). The remaining firm has never thought about transferring local employees between countries (Company H).

Although most companies have a rule or system for transferring local employees, it only happens within the region. In this interview survey, many companies also mentioned the difficulties of transferring local employees between countries: points such as tax, social insurance, pension, and so on. In addition to this, they said that many employees would not wish to work abroad, or in Japan. In the worst case, due to reforming the headquarters organization, the possibilities of transferring local employees to headquarters has disappeared.

Question 10: Does your regional organization have any system to exchange your regional voice and best practices with other RHQs?

Question 10 is about interaction between RHQs. According to this interview survey, there was no systematic evidence of such interaction. Two of eight companies mentioned that they just have the opportunity to exchange regional experiences and best practices at headquarters level (Company A and E). One of the eight companies answered that they have exchanged experiences between headquarters and RHQ, but not between RHQs (Company D). Another company said that such interaction takes place only in the R&D department (Company G). Others do not have any system for such exchange.

## **Discussion**

In this section, the roles of the RHQs are discussed on the basis of the findings mentioned above.

In the second section of this paper, some points were considered and suggested for defining RHQs. These include the possibilities of carrying out a headquarters-like function; having power for decision-making in the region; the possibility that the RHQ's CEO is a boardmember at the corporate headquarters in Japan; and the posting of the CEO at RHQ. According to this interview survey, Company A, B, C, D, F, and G fulfilled the above requirements for carrying out a headquarters-like function, but Company E and H do not. Therefore, it readily can be said that Company A, B, C, D, and F are RHQs as defined by this paper.

In the case of Company E, although they originally had a CEO, the position of the CEO in the company disappeared with reform. Now they have four Senior Vice-Presidents in the region as top management. But the Vice-President in charge of overseas businesses at the corporate headquarters is placed on top of the senior vice presidents. He is Chairman of the Regional Management Committee, though he works at the corporate headquarters in Japan. The Regional Management Committee makes decision about most regional matters. Although Company E has thus seemed to strengthen their overall corporate global integration, and now distinguishes clearly between global and regional roles, it can be seen that regional management in Company E still has strong decision-making power. Judging from this, it can be seen that

Company E may be defined as a RHQ.

On the other hand, Company H itself mentioned that it does not have a Corporate Officer at the corporate headquarters in Japan, and it cannot make decisions for regional management, so it is clear that Company H cannot be defined as a RHQ.

In addition to this, the requirements for carrying out headquarters-like functions were discussed in the interview survey. Many companies indicated the importance of approval power in personnel management and in the corporate planning for their subsidiaries. Judging from this fact, it is supposed that the headquarters-like function requires decisionmaking to allocate management resources and to create a flow of knowledge. In other words, if MNCs want RHQs to carry out the headquarters-like function, they have to give RHQs enough power to create a knowledge flow.

Concerning the coordination function, some patterns were observed in this interview survey. Most companies coordinate their subsidiaries by using the regional management committee or the board of their RHQ. Directors and managers in the RHQ and the subsidiaries participate in such committees, and they discuss regional strategy there. Notably, some managers in Company B and D have two positions simultaneously. It means that one position is for regional management and another position is for the local subsidiaries. From this point of view, one manager could have a double perspective. They always have to consider both regional and local issues. Since the conflicts between RHQ and subsidiaries could be reduced by utilizing the same person, it seems to be a unique and useful system.

Furthermore, Company F coordinates the activities of subsidiaries through purchasing parts for the production sites. This means that as long as the RHQ controls the flow of the parts/products, the RHQ also controls information flow and an important knowledge base. This may be superior to using a regional management committee, because the relationship is not simply the reporting of subsidiary activity, but also a kind of business relationship. In fact, some RHQs coordinate the flow of products, and they can play a role as a coordinator. How RHQs coordinate the business units is a matter of knowledge flow. RHQs could create value in the region if they can set up the knowledge flow successfully. Therefore this argument should be considered in terms of the role of transferring knowledge of local operations and markets to headquarters and other subsidiaries in MNCs.

How about the coordination between global integration and regional responsibilities? According to this interview survey, most RHQs have a CEO who has a strong link to headquarters, such as membership on the head office board of directors, or has the possibility to attend corporate strategic meetings. They can discuss global strategy at headquarters, and contribute a regional and local voice. It can thus be seen that the coordination function between global integration and regional responsiveness is carried out at headquarters.

The role of developing new business in the region was expected from many studies, but as mentioned in Question 7, it is difficult to find such a role in Table 1 for the companies surveyed. Why doesn't the RHQ develop and manage new businesses? One reason is that RHQs were established to manage existing subsidiaries efficiently, and the development of new business does not seem a primary purpose of RHQs. Another reason is that a RHQ is generally not a business unit, and it logistically therefore is difficult for RHQs to develop new business. But where the mission of RHQs is to create value in the region, RHQs might start to play a leadership role in

developing new business.

In this survey, there were no positive reasons for choosing the location of the RHQ, except in the case of Company B. This seems to be problem: if a goal is to supply appropriate knowledge to MNEs, they should locate the RHQ at the place of knowledge accumulation. Why do they not think about this? The reason is hard to determine, because of lack of data. They might think that the RHQ is just a management or service organization, but it can be said that Japanese MNCs should reconsider the location of RHQs on the basis of knowledge flow.

The possibility was found for transferring knowledge from local operations and markets to headquarters and other subsidiaries in MNCs. However in most RHQs this is done only via Japanese expatriates. On the one hand, these Japanese RHQs hold some meetings that consider providing information for headquarters, but such meetings are generally only attended by Japanese expatriates; local employees have few chances to participate in regional strategic meetings. Inward and outward local transfer of knowledge is limited.

The interaction between RHQs was mentioned in Question 10, in consideration the theory of a heterarchy. According to the interview survey, Japanese MNCs have never encouraged synergy between RHQs. Why? As mentioned above, RHQs were established to manage the region's subsidiaries, and the RHQs become a sort of regional-oriented organization. It seems not to have been considered that synergy might be encouraged between RHQs. Japan, the U.S. and the EU could give birth to new knowledge by encouraging such synergy. If Japanese MNCs better consider the possible benefits of knowledge-based management, they should create better knowledge flow between RHQs.

## **Conclusion**

The roles of RHQs were considered in this paper. Background studies first were mentioned. In the second section, ten questions were suggested that were used to conduct an interview survey. According to this interview survey, it was determined that Japanese RHQs carry out many roles as expected. However, from the viewpoint of the knowledge management, there seems to be an insufficiency. Japanese MNEs might usefully have to reconsider the roles of RHQs.

At present, the EU integration process is fast progressing. An enormous single market is emerging, and also a base of regional knowledge based on the EU. In this situation, Japanese MNCs have to build-in organizational frameworks to identify and collect and make use of knowledge. RHQ seems to be a solution. In other words, RHQ might function as a knowledge coordinator. For RHQ to become the knowledge coordinator, nodal point location is important. If the RHQ is outside of the flow of knowledge, Japanese MNCs have to rebuild the RHQ structure.

Finally, a subject of future study is mentioned.

It was discovered in this interview survey that one RHQ is considering closing down. Some Japanese general trading companies are also going to close down their regional headquarters, but without abolishing the regional function. This means that some subsidiaries will carry out the headquarters-like functions instead of the RHQs. Can subsidiaries carry out such headquarters-like functions and fulfill the role of



knowledge coordinator? This is an issue that deserves further study.

Also, it remains unclear what kind of knowledge should and might be exchanged through a RHQ. The substance of such knowledge and potential leverage needs to be better defined.

To sum up, Japanese MNCs should better consider the possibilities of transferring knowledge through RHQs, and in light of such potential, reconsider their expectations for RHQs.

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